


U.S. Department of Homeland Security  
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Homeland  
Security

December 10, 2004

MEMORANDUM FOR: Kenneth O. Burris, Jr.  
Regional Director, FEMA Region IV

FROM:   
Gary J. Barard  
Field Office Director

SUBJECT: Jackson Energy Cooperative Corporation  
FEMA Disaster No. 1207-DR-KY  
Audit Report No. DA-07-05

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The Office of Inspector General (OIG) audited public assistance funds awarded to Jackson Energy Cooperative Corporation, McFee, Kentucky. The objective of the audit was to determine whether the Corporation accounted for and expended FEMA funds according to federal regulations and FEMA guidelines.

The Corporation received an award of \$3.1 million from the Kentucky Division of Emergency Services, a FEMA grantee, to repair the electrical distribution system damaged as a result of a severe snowstorm in February 1998. The award provided 75 percent FEMA funding for seven large projects. The audit covered the period February 1998 to February 2003. During this period, the Corporation claimed \$3,141,642 (see Exhibit) and received \$2,356,232 of FEMA funds.

The OIG performed the audit under the authority of the Inspector General Act of 1978, as amended, and according to generally accepted government auditing standards. The audit included tests of the Corporation's accounting records, a judgmental sample of expenditures, and other auditing procedures considered necessary under the circumstances.

#### RESULTS OF AUDIT

The Corporation's claim contained \$114,199 (FEMA share \$85,649) of project charges that were either excessive or ineligible.

A. Excess Charges. The Corporation's claim included \$82,385 of excess equipment and contract charges, as follows:

- The Corporation claimed \$162,403 for vehicle use based on hourly rates contained in the FEMA Schedule of Equipment rates. However, the OIG determined that charges for certain vehicles should have been based on mileage rather than hourly rates because they were used to transport employees to the work sites.

At OIG's request, the Corporation recalculated its claim based on mileage and determined that the claim should have been \$96,493, for a difference of \$65,910. Accordingly, the OIG questions the excess charges of \$65,910, as follows:

<u>Project Number</u>	<u>Amount Claimed</u>	<u>Amount Eligible</u>	<u>Amount Questioned</u>
52414	\$ 35,799	\$ 23,036	\$12,763
52415	10,807	5,305	5,502
52416	32,616	20,470	12,146
52417	32,218	17,371	14,847
52419	19,763	11,890	7,873
52421	11,332	5,921	5,411
52426	<u>19,868</u>	<u>12,500</u>	<u>7,368</u>
Total	<u>\$162,403</u>	<u>\$ 96,493</u>	<u>\$65,910</u>

- The Corporation's claim under Projects 52417 and 52426 included \$17,201 of contract equipment charges based on contractor billings of 919 hours of equipment use. However, the contractor had equipment operator hours to support only 371.5 hours of use. The difference of 547.5 hours, and related costs of \$11,850, represents idle equipment time that is unallowable under federal regulation (U. S. Office of Management and Budget Circular A-122, Attachment B, Para. 16). The OIG questions the \$11,850, as follows:

<u>Project Number</u>	<u>Amount Claimed</u>	<u>Amount Eligible</u>	<u>Amount Questioned</u>
52417	\$ 2,925	\$ 911	\$ 2,014
52426	<u>14,276</u>	<u>4,440</u>	<u>9,836</u>
Total	<u>\$17,201</u>	<u>\$5,351</u>	<u>\$11,850</u>

- The Corporation claimed \$44,223 of contract labor charges under Projects 52417 and 52426. The claim was based on labor costs billed at a rate of 1.5 times the employees' regular pay for the first 40 hours of work, and 2 times their regular pay after 40 hours of work. However, according to the contract terms, labor costs should have been billed at the employees' regular rate of pay for the first 40 hours of work, 1.5 times their regular pay after 40 hours of work from Monday to Friday and for the first 8 hours of work on Saturday. All other work times, including Sundays and holidays, were to be billed at 2 times the employees' regular rate of pay. Applying the contract terms for labor rates, the OIG determined that the Corporation's claim should have been \$39,598. The OIG questions the difference of \$4,625, as follows:

Project <u>Number</u>	Amount <u>Claimed</u>	Amount <u>Eligible</u>	Amount <u>Questioned</u>
52417	\$ 7,628	\$ 6,842	\$ 786
52426	<u>36,695</u>	<u>32,756</u>	<u>3,839</u>
Total	<u>\$44,223</u>	<u>\$39,598</u>	<u>\$4,625</u>

- B. Ineligible Project Charges. The Corporation's claim of \$324,235 for the repair and restoration of its electrical distribution system contained \$31,814 of ineligible project charges. The Corporation claimed \$22,635 for system upgrades that were not required by current codes and standards. This included the replacement of damaged transformers with ones of increased capacity to meet future consumer demand and the replacement of damaged poles with those of greater height for better clearance over telephone and cable lines. Federal regulation (44 CFR 206.228) limits financial assistance to restoring damaged facilities to their pre-disaster design unless upgrades are required to meet current codes or standards.

Also, the Corporation claimed \$9,179 for the acquisition and installation of additional poles and wires (not replacements for those damaged) to increase the electrical distribution capacity to meet future consumer demand. Federal regulation (44 CFR 206.223) states that to be eligible for financial assistance, an item of work must be required as the result of the major disaster event. The OIG questions the ineligible project charges of \$31,814, as follows:

Project <u>Number</u>	Amount <u>Claimed</u>	Amount <u>Eligible</u>	Amount <u>Questioned</u>
52414	\$ 71,497	\$ 69,633	\$ 1,864
52415	44,419	33,973	10,446
52416	84,802	79,525	5,277
52417	23,580	19,342	4,238
52419	32,037	28,612	3,425
52421	12,194	10,169	1,664
52426	<u>55,706</u>	<u>51,167</u>	<u>4,900</u>
Total	<u>\$324,235</u>	<u>\$292,421</u>	<u>\$31,814</u>

### RECOMMENDATION

The OIG recommends that the Regional Director, in coordination with the grantee, disallow the \$114,199 of questioned costs.

### DISCUSSION WITH MANAGEMENT AND AUDIT FOLLOW-UP

The results of the audit were discussed with grantee, FEMA, and Corporation officials on August 16, 2004. Corporation officials concurred with the findings.

Please advise the Atlanta Field Office - Audit Division by March 10, 2005, of the actions taken to implement the OIG recommendation. Should you have any questions concerning this report, please contact David Kimble or me at (770) 220-5242.

Jackson Energy Cooperative Corporation  
FEMA-Disaster 1207 -DR-KY  
Schedule of Claimed and Questioned Costs  
Large Projects

<u>Project Number</u>	<u>Amount Awarded</u>	<u>Amount Claimed</u>	<u>Amount Questioned</u>
52414	\$ 774,391	\$ 774,391	\$ 14,627
52415	287,622	287,622	15,948
52416	621,517	621,517	17,423
52417	634,811	634,811	21,885
52419	333,858	333,858	11,298
52421	162,672	162,672	7,075
52426	<u>326,771</u>	<u>326,771</u>	<u>25,943</u>
Total	<u>\$ 3,141,642</u>	<u>\$3,141,642</u>	<u>\$114,199</u>